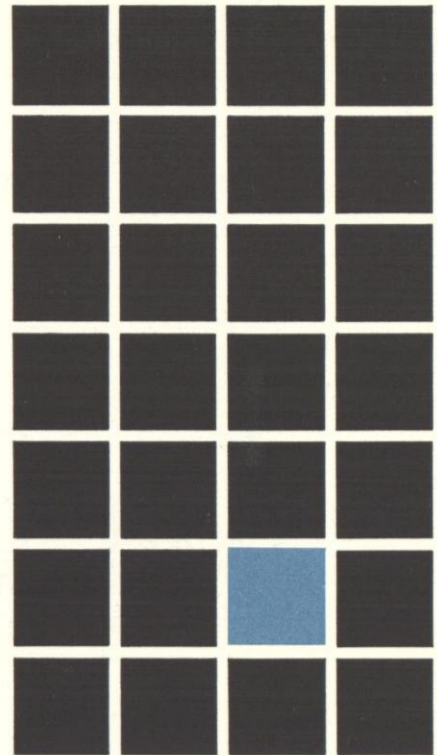




Annual Report for the fiscal year ended January 28, 1961



City Stores Company

BOARDS

Department Stores

LIT BROTHERS

Bernard Litvak, *President*

PENNSYLVANIA:

Philadelphia
69th Street (Upper Darby)
Northeast Philadelphia
Morrisville

NEW JERSEY:

Trenton
Camden

MAISON BLANCHE

Isidore Newman, II, *President*

LOUISIANA:

New Orleans
Carrollton
Gentilly
Airline Highway
West Side
Gentilly Woods

LOVEMAN, JOSEPH & LOEB

Paul Dowd, *President*

ALABAMA:

Birmingham
Montgomery
Bessemer

LANSBURGH'S

Charles H. Jagels, *President*

DISTRICT OF COLUMBIA:

Washington

MARYLAND:

Langley Park

VIRGINIA:

Arlington (Shirlington)

B. LOWENSTEIN

Stanley H. Fried, *President*

TENNESSEE:

Memphis
East
South
Home Service

RICHARDS

Paul S. Walker, *President*

FLORIDA:

Miami
163rd Street
Miami Beach
Cutler Ridge

KAUFMAN'S OF KENTUCKY

Robert L. Milius, *President*

KENTUCKY:

Louisville
Dixie Manor
Shelbyville*

BRY-BLOCK

Irving Garfinkle, *Executive Head*

TENNESSEE:

Memphis

R. H. WHITE

Harold Broomfield, *Executive Head*

MASSACHUSETTS:

Worcester

HEARN'S

Gwilym R. Thomas, *Executive Head*

NEW YORK:

Bronx

Specialty Stores

Benjamin Goldstein, *President*

FRANKLIN SIMON

CONNECTICUT:

Westport
Milford

DISTRICT OF COLUMBIA:

Washington

GEORGIA:

Atlanta
Lenox Square

MARYLAND:

Wheaton Plaza

MASSACHUSETTS:

Boston

MICHIGAN:

Detroit
Northland Center
Eastland Center

MISSOURI:

Crestwood
Clayton

NEW JERSEY:

East Orange
Eatontown

NEW YORK:

New York City
Garden City
Manhasset

NORTH CAROLINA:

Charlotte

OHIO:

Swifton
Cleveland

TENNESSEE:

Memphis

VIRGINIA:

Seven Corners

OPPENHEIM COLLINS

DELAWARE:

Wilmington

MARYLAND:

Mondawmin
Harundale Center
Towson Center

NEW JERSEY:

East Orange
Hackensack
Haddonfield
Menlo Park
Morristown
Paramus

NEW YORK:

New York City
Buffalo — downtown and Thruway Plaza
Cross County
Hicksville
Huntington
Valley Stream
Roosevelt Field

PENNSYLVANIA:

Philadelphia
Germantown
Willow Grove

Home Furnishings Stores

W & J SLOANE'S**

Leonard Novogrod, *President*

CALIFORNIA:

San Francisco
Los Altos
Walnut Creek
Sacramento
Oakland

City Stores Company



KLINE'S

Jack C. Smith, *President*

MISSOURI:

Kansas City

* To be opened during 1962.
** Acquired April 1, 1961. Additional W & J Sloane stores in Eastern United States will be acquired, pursuant to contract, December 31, 1961.

City Stores Company

CORPORATION OFFICE

132 West 31st Street, New York 1, N. Y.

NEW YORK BUYING OFFICE

City Stores Mercantile Company, 132 W. 31st St., New York 1, N. Y.

Directors

GUSTAVE G. AMSTERDAM
JAMES H. BECKER
MURRY C. BECKER
DAVID BORTIN
FRANKLIN F. BRUDER
J. J. CAPRANO
RALPH L. GOLDSMITH
ALBERT M. GREENFIELD
BRUCE H. GREENFIELD
JOSEPH A. W. IGLEHART
CHARLES H. JAGELS
WILLIAM F. KELLY
BERNARD LITVAK
ISIDORE NEWMAN, II
THOMAS C. PILLION
MAX ROBB
SERGE SEMENENKO

Officers

GUSTAVE G. AMSTERDAM, Chairman of the Board
MAX ROBB, President
FRANKLIN F. BRUDER, Executive Vice President and Treasurer
ISIDORE NEWMAN, II, Senior Vice President
WILLIAM S. DARROW, Vice President
BENJAMIN GOLDSTEIN, Vice President
CHARLES H. JAGELS, Vice President
BERNARD LITVAK, Vice President
IRVING J. ZIPIN, General Attorney and Assistant Secretary
J. KARL FISHBACH, Corporate Controller and Assistant Treasurer
MILTON A. KAMSLER, Secretary

Transfer Agent	The Chase Manhattan Bank, New York, N. Y.
Co-Transfer Agent	The First Pennsylvania Banking & Trust Company, Philadelphia, Pa.
Registrar	Chemical Bank New York Trust Company, New York, N. Y.
Counsel	Folz, Bard, Kamsler, Goodis & Greenfield, Philadelphia, Pa.
Auditors	S. D. Leidesdorf & Co., New York, N. Y.

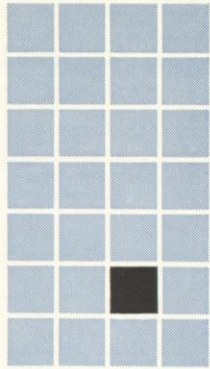
Annual Meeting May 17, 1961 • 11 A.M. (E.D.S.T.)
Statler Hilton Hotel, 7th Avenue and West 33rd Street
New York, N. Y. (West Room, Ball Room Floor)

Highlights

YEAR (52 WEEKS) ENDED

	January 28, 1961	January 30, 1960
OPERATIONS		
Sales	\$262,504,000	\$274,633,000
Income before federal income taxes	349,000	5,654,000
Federal income taxes/ <i>credit</i>	<i>1,520,000</i>	2,900,000
Net income	1,869,000	2,754,000
Income per average common share	0.69	1.09
DIVIDENDS		
Common stock	2,424,000	2,525,000
Per share of common stock	0.90	1.00
FINANCIAL		
Current assets	85,898,000	94,718,000
Current liabilities	26,618,000	34,320,000
Working capital	59,280,000	60,398,000
Current ratio	3.2	2.8
Accounts receivable	56,185,000	63,876,000
Bank remittances on portion of receivables	<i>14,837,000</i>	<i>12,871,000</i>
Inventories	26,610,000	30,235,000
Property and equipment — net	38,456,000	38,953,000
Long term debt	27,443,000	29,128,000
Ownership		
Common stock equity	63,168,000	62,294,000
Common stock equity per share	22.83	23.31
Number of shares outstanding		
Common stock — average during year	2,694,000	2,525,000
Common stock — at end of year	2,767,012	2,672,766

Italics denote red figures.



City Stores Company

To the Stockholders:

The year 1960 has been a difficult one to appraise by normal standards. Adverse effects of the general economic recession and poor weather at a time of extensive changes in management and operating policies of many of the stores, contributed to a financial result that is less than we projected a year ago. However, in acquiring and developing competent management and providing the tools and methods for more efficient and effective operations, we have made progress in many of the areas mentioned in last year's annual report. The accuracy of this appraisal will become apparent as the operating results develop for 1961 and future years.

Operating analyses and detailed financial data appear in the pages that follow. In summary, you will note that sales declined 4.4%, or \$12,000,000 to \$262,500,000. A large part of this decline came from major changes in our specialty store operations, including the closing of several stores. Net income was \$1,869,000, after a substantial tax credit.

Since early 1959, the Company instituted a comprehensive program to strengthen and reconstruct those store operations which had proved to be pivotal factors in the Company's declining results. This involved major investments in new executive manpower and the formulation of new programs and procedures in all phases of merchandising and operations. Although this activity began in 1959, the major changes became effective during 1960 and are, in great measure, continuing into 1961.

The initial costs of so important a program are high and the financial results for 1960 bore a major part of this burden. Although significant expenditures will be made in 1961, we anticipate an improvement in our operating results for 1961 with accelerated benefits appearing thereafter.

The major change in our manpower and operating policies was strikingly demonstrated in the 1960 activities of City Specialty Stores, which operates 43 Franklin Simon and Oppenheim Collins specialty stores. Results had been unsatisfactory for some time. Rather than temporize with the situation, which seemed to give little hope of a satisfactory return in its then form, we decided to reconstitute the company from top to bottom. Instead of a loose federation of individual specialty stores, a true chain operation was created. Control of stocks and store operations have been centralized through a newly created central office and warehouse operation. Many details, problems and costs were encountered in creating this new and complex chain store operation, doing about \$45,000,000 in volume. New executives had to be chosen and trained for each position and new facilities had to be built and put into operation. All of these entailed substantial and extraordinary expense and were reflected directly in the profit and loss figures for the past year.

Although most of the job in the specialty store group has now been completed, much still remains to be done and some of the unusual costs will continue through the Spring of this year. We are satisfied, however, that the changes were both necessary and desirable to give us the assurance that we have a soundly based operation which will produce satisfactory results for our Company and its stockholders.

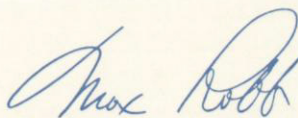
Similar changes, although less drastic in degree, have taken place in various of our department store units. These changes also have been costly but, again, we are satisfied the cost will be justified by future results. To broaden the scope of our operations and meet new retail competition, we are developing plans for specialized types of branches for many of our department stores. These include low markup, self-service operations and units for specific commodities, either soft or hard lines. They will also include an expansion of the automobile accessory stores, four of which have been opened in the past year. As a major distributor of goods, we will adhere to a policy of employing any appropriate methods of distribution in order to meet and satisfy most profitably the demands of and changing conditions in the communities which we serve.

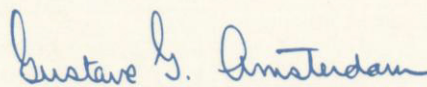
We are pleased to report the recent acquisition by a subsidiary of the Company of the highly reputable W & J Sloane home furnishings business. The West Coast operation, consisting of five California stores in San Francisco, Oakland, Los Altos, Walnut Creek and Sacramento, was acquired on April 1, 1961. The East Coast operation, consisting of twelve stores in the Greater New York area, northern New Jersey and Connecticut, will become part of our operation on December 31, 1961.

The past year has seen the beginning of our pension plan and executive stock option plan. The former has served to formalize the retirement provisions for our long term associates. Both plans will furnish incentives which will enable us to attract and develop an ever better executive and managerial family.

We take this opportunity to thank our fellow associates for their efforts in our common enterprise and to assure those with whom we do business that we are grateful for their help and cooperation toward a fulfillment of our aims and goals.

Respectfully submitted,


President


Chairman of the Board

April 25, 1961

Review of Operations

SALES AND INCOME

In the fiscal year 1960, sales totaled \$262,504,000, compared with \$274,633,000 for fiscal year 1959, a decrease of \$12,129,000, or 4.4%.

Income before taxes for 1960 amounted to \$349,000, compared with \$5,654,000 for 1959, a decrease of \$5,305,000. In 1960 there was a federal income tax credit of \$1,520,000, compared with a provision of \$2,900,000 for 1959. The 1960 credit represents a reduction in deferred federal income taxes (net), resulting from the offset of a prior year's net operating loss carryover and other available deductions against taxable income, which includes income arising from the sale of a portion of installment receivables and of rights to receive future rents.

Net income for 1960 was therefore \$1,869,000, or \$.69 per average share of common stock for 1960, compared with \$2,754,000, or \$1.09 per average share for 1959.

DIVIDENDS

Dividends declared in 1960 amounted to \$2,424,000 (\$1,058,000 in cash and \$1,366,000 in common stock), or \$.90 per share, compared with \$2,525,000, or \$1.00 per share in 1959. The 1960 dividends consisted of one dividend of \$.25 per share payable in cash and three dividends of \$.25, \$.25 and \$.15 per share, respectively, payable in cash or in common stock at the option of the stockholder.

A dividend of \$.15 per share was declared payable on May 15, 1961 in cash or stock at the option of the stockholder. This represents the 67th consecutive quarterly dividend paid since 1944.

Certain long term loan agreements as described in Note F to the financial statements contain provisions with respect to the payment of cash dividends.

WORKING CAPITAL

Working capital amounted to \$59,280,000 at the close of 1960, compared with \$60,398,000 at the close of 1959, a decrease during the year of \$1,118,000, summarized as follows:

Additions to working capital	
Net income	\$1,869,000
Depreciation	3,730,000
Deferred credit items	1,104,000
	<u>\$6,703,000</u>
Uses of working capital	
Expenditures for property and equipment, net of dispositions of \$42,000	\$3,233,000
Dividends paid in cash	1,058,000
Reduction of long term debt and other credit items	2,244,000
Increase in investments and other assets	884,000
Charges to reserves and other items	402,000
	<u>\$7,821,000</u>
Decrease in working capital	<u>\$1,118,000</u>

The ratio of current assets to current liabilities at the end of 1960 was 3.2, compared with 2.8 the previous year.

Cash and marketable securities amounted to \$15,383,000, compared with \$11,079,000 for the previous year, an increase of \$4,304,000. This increase results largely from the proceeds of \$6,819,000 from the sale of certain installment accounts on January 28, 1961.

Before considering the proceeds from bank financing, accounts receivable amounted to \$56,185,000 in 1960, compared with \$63,876,000 in the prior year, after allowance for doubtful accounts. After considering the proceeds from bank financing, accounts receivable decreased from \$51,005,000 last year to \$41,348,000 this year.

INVENTORIES

Merchandise inventories, priced principally at LIFO cost and partly at the lower of cost or market, decreased from \$30,235,000 last year to \$26,610,000.

PROPERTY AND EQUIPMENT

Capital expenditures amounted to \$3,275,000 for store improvements, fixtures and equipment.

TAXES

Federal, state and local taxes during the year aggregated \$3,673,000, equivalent to \$1.36 per share of common stock. This compares with \$7,700,000 and \$3.05 per share of common stock the previous year. The decrease results largely from the reduction in deferred federal income taxes.

OWNERSHIP

At the close of the fiscal year, the minority interest of a former subsidiary, City Specialty Stores, Inc., was acquired by merger into our Company. This merger resulted in an increase in ownership of \$81,000 through the issuance of our capital stock as described in Note I to the financial statements.

On April 4, 1961, the Board of Directors of the Company authorized an increase in the authorized common stock from 3,000,000 shares to 6,000,000 shares, subject to approval of the stockholders at the annual meeting to be held May 17, 1961.

During the first year of the Pension Plan of the Company, which became effective February 1, 1960, 100 employees with average credited service of 27.4 years, retired under the Plan, receiving total pensions at the annual rate of \$75,523. In addition, a total of \$396,000 is being paid as annual retirement benefits under the informal programs of the Company preceding the adoption of the Plan.

The first stock options, totaling 49,250 shares of the Company's common stock, were granted on July 5, 1960 to 32 employees, of whom 9 are officers of the Company, and an option for 2,500 shares was terminated. The option price was \$14.13, being 95% of the official closing price (14 $\frac{7}{8}$) of the Company's common stock on the New York Stock Exchange on that date. On April 4, 1961, options for an additional 12,750 shares of said stock were granted to 19 additional employees, one of whom is an officer, at a price of \$13.49, being 95% of the official closing price (14 $\frac{1}{8}$) of said stock on that date. Under the option plan of the Company,

optionees may exercise their options in installments over a ten-year period. Options are initially exercisable 18 months after date of grant.

OPERATIONS AND EXPANSION

Lit Brothers, Philadelphia, has continued an aggressive program of merchandising and store events to meet the challenge of increasing retail competition in the greater Philadelphia area. The main store modernization program is timed to keep pace with the redevelopment in downtown Philadelphia's Society Hill, which is expected to bring thousands of families back to center city, within walking distance of the main store. Plans for the new downtown parking garage for 1,000 automobiles continue to progress. The first of several tire and auto service centers has begun operations adjoining the Northeast store and plans have been drawn to expand and remodel this store to meet the increased demand anticipated from the great growth of population and homes as well as the new competitive retail outlets in this area of the city.

During the past year, Maison Blanche, New Orleans, further increased its stature as the "Greatest Store South" with the award of "Brand Name Retailer of the Year." Its prestige and merchandising leadership were enhanced with a distinguished two weeks Fête Française, saluting the culture, elegance and fashions of France in a well-received exposition of that country's products, art, and merchandise. On April 20, 1961, a fifth suburban store in the fast growing Gentilly Woods area, five miles east of the main store, was opened. This 120,000 square foot store is the largest and most beautiful suburban department store in the Southern Gulf area. In Fall 1960, Maison Blanche expanded its customer facilities with the opening of three tire and auto accessory stores serving the downtown business district and the major traffic arteries of New Orleans. In recognition of the need for quicker and more current credit statistics, another retailing achievement in the department store field was the introduction of complete electronic billing of the Maison Blanche accounts receivable operation through use of a 650 IBM computer. This installation promises further advances in the development of more rapid data concerning sales and merchandising statistics.

To add to its position as the dominant store in Alabama, Loveman, Joseph & Loeb continued its program of modernization and renovation and emphasis on fashion. Loveman's store and community events were helpful in meeting the effects of the continued decline in the Birmingham area resulting from the steel industry recession.

Lansburgh's, in the nation's capital, celebrated its 100th anniversary during 1960. The new Shirlington store enjoyed its first full year of operation and has shown growth in this expanding area. The program of modernization of the main store plant continued with the construction of new entrances, the renovation of the entire second floor housing ready-to-wear, sportswear, shoes and millinery, as well as other interior improvements. A new management team is aggressively upgrading its merchandising and service functions.

B. Lowenstein & Bros., Inc. in Memphis has experienced some growth in its suburban stores. Plans for the downtown store are still under discussion and should be announced shortly.

Richards in Miami, Florida, opened, in October 1960, a new store of 60,000

square feet in Cutler Ridge, located about 20 miles southwest of the downtown store. This store should assure for Richards a greater share of the business in this fast and constantly growing area.

Kaufman's of Kentucky modernized its main store plant, renovated departments and developed a new merchandising organization in an effort to improve its operations. These factors and stronger emphasis on soft lines and fashion business are considered forward steps in efforts to increase Kaufman's share of business in its community. Construction of a second branch store of 80,000 square feet in Shelbyville Center, eight miles east of the downtown store, will begin shortly, with the opening date scheduled for Spring 1962.

The R. H. White store in Lincoln Plaza Shopping Center in Worcester, Massachusetts, benefited from the continued development of the Center. A large bowling alley, a second supermarket and additional retail units to be constructed in the Center should further aid in increasing this store's business.

The Hearn's store in the Bronx, New York, and Bry's in Memphis, Tennessee, have maintained active programs to develop their business as low markup stores. Kline's in Kansas City, Missouri, under new management, has begun a program to enhance and upgrade its merchandise and operations as a leading women's, men's and children's apparel store.

During the past year, City Specialty Stores, comprising the Franklin Simon and Oppenheim Collins specialty stores, has undergone a major and comprehensive program of reorganization involving all aspects of its merchandising, store operations and central office activities. The major objective of this reorganization is to develop two outstanding national chains of fashion specialty stores under the Franklin Simon and Oppenheim Collins names, operating with the most modern chain store policies and systems. The program necessitated the establishment and development of a completely new executive staff of the Company, including merchandising management. This program consists of a central office organization with facilities and systems providing for the central receipt, warehousing and distribution of all merchandise for both chains and the housing of all personnel. A data processing system was designed to provide complete and up-to-the-minute information on merchandising activities and related operations. The central office and warehouse operation, including the data processing department, began operations in the Spring of 1961 in a modern, one-floor facility of 150,000 square feet.

NEW YORK BUYING OFFICE

The Company's resident buying office in New York City has continued its function of developing and stimulating emphasis and interest in merchandising programs for our respective store units. These include a private label program, store meetings concentrating in depth in specific categories, an import program with greater emphasis in ready-to-wear and sportswear fields and expansion of the successful central dress program.

CITY STORES COMPANY

132 West 31st Street

New York 1, New York

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

Annual Meeting of Stockholders

May 17, 1961

Time: 11:00 o'clock A.M., Eastern Daylight Saving Time

Place: Statler Hilton Hotel, 7th Avenue and West 33rd Street, New York, N. Y.,
West Room, Ball Room Floor

Important

You are cordially invited to attend the meeting; however, if you are unable to be present, will you please sign, date and return the enclosed Proxy promptly in the enclosed postpaid envelope. If you are present at the meeting in person, the Proxy will not be used.

We enclose in this mailing the Notice of Annual Meeting of Stockholders, Proxy Statement, Proxy and Annual Report of the Company for the last fiscal year ended January 28, 1961.

CITY STORES COMPANY

132 West 31st Street

New York 1, New York

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders of City Stores Company will be held at the Statler Hilton Hotel, 7th Avenue and West 33rd Street, New York, New York, in the West Room, Ball Room Floor, on Wednesday, May 17, 1961, at 11:00 o'clock A.M., Eastern Daylight Saving Time, for the following purposes:

1. To elect a Board of Directors to serve until the next Annual Meeting of Stockholders and until their successors shall be elected and shall qualify.
2. To consider and act upon a proposal to amend the Certificate of Incorporation of the Company by increasing its authorized capital stock from 3,000,000 shares of Common Stock (\$5.00 par value) to 6,000,000 shares of such stock.
3. To transact such other business as may properly come before said meeting or any adjournment or adjournments thereof.

Only stockholders of record at the close of business April 14, 1961 will be entitled to notice of and to vote at said meeting. The Board of Directors, pursuant to the By-Laws, has set said date for determination of stockholders entitled to notice of and to vote at said meeting.

By order of the Board of Directors,

New York, New York
April 25, 1961

MILTON A. KAMSLER,
Secretary

CITY STORES COMPANY

132 West 31st Street

New York 1, New York

PROXY STATEMENT

This statement is being furnished in connection with the Annual Meeting of Stockholders of City Stores Company ("Company") which is being held for the purposes set forth in the accompanying Notice of Annual Meeting.

The enclosed proxy is solicited by the management of the Company and may be revoked at any time prior to the time it is voted. Proxies in the form enclosed, properly executed and duly returned to the management and not revoked, will be voted at the meeting as marked on the respective proxy. Unless otherwise marked on the proxy, the respective proxies will be voted for the election of directors, in favor of the amendment to the Certificate of Incorporation and upon such other matters as may be brought before the meeting as hereinafter set forth in this statement.

The cost of soliciting proxies will be borne by the Company. In addition to usual solicitation by mail, proxies may be solicited by personal interview or by telephone or telegraph, and brokers and other persons holding the Company's Common Stock as nominees will be requested to solicit proxies or authorization from the beneficial owners of the stock.

The Annual Report of the Company for its last fiscal year ended January 28, 1961 is enclosed.

VOTING SECURITIES AND PRINCIPAL HOLDERS

The only outstanding voting security of the Company is the Common Stock, consisting of 2,767,072 shares. Each share is entitled to one vote. Only stockholders of record at the close of business on April 14, 1961 will be entitled to vote at the meeting.

As of March 1, 1961, Bankers Securities Corporation was beneficial owner of 2,033,711 shares of the Company's Common Stock constituting 73.50% of its outstanding voting securities. Of said amount, 1,502,597 shares, constituting 54.30% of the outstanding voting securities of the Company, were owned of record by Bankers Securities Corporation. The balance of 531,114 shares of said Common Stock owned beneficially by Bankers Securities Corporation, consisting of 19.19% of the outstanding voting securities of the Company, was owned of record (but not beneficially) by James F. Hickey.

NOMINEES AND DIRECTORS

In accordance with the By-Laws of the Company, the Board of Directors has fixed the number of directors to be elected at the annual meeting of stockholders at 17. It is the intention of the persons named in the enclosed form of proxy to vote such proxy for the election of the following persons who have been designated by the management as nominees, each of whom is a director of the Company. Although the named nominees are presently available for election, if any nominee should later become unavailable for any reason before the meeting (which is not anticipated), the proxies will be voted for a person to be selected by the management of the Company, and the persons named as attorneys and proxies in the form of proxy reserve their discretion to vote for such substitute nominees.

The following information is submitted concerning the present directors of the Company, all of whom are nominees for reelection, and is based on data furnished by each of them.

Directors(a)	Principal Occupation or Employment	Director Since	Shares Beneficially Owned as of March 1, 1961 (c)		
			Company	Parent (d)	
			Common	Pfd.	Com.
GUSTAVE G. AMSTERDAM*	Chairman of Board and President of Bankers Se- curities Corp. — Chair- man of Board of Com- pany	May, 1940	2,051 (e) (f)	362 (g)	5,360 (e) (g)
JAMES H. BECKER	President, A. G. Becker & Co., Inc. — Investment Bankers	May, 1951	None	None	None
MURRY C. BECKER	Partner, Becker, Ross & Stone — Law Firm . . .	May, 1946	None	None	None
DAVID BORTIN	Attorney	May, 1944	500	1,600	101
FRANKLIN F. BRUDER*	Executive Vice President & Treasurer of Company .	Oct., 1956	2,188	None	None
JULIUS J. CAPRANO	Retired	May, 1950	None	None	None
RALPH L. GOLDSMITH	Retired (b)	Oct., 1951	5,350	None	None
ALBERT M. GREENFIELD	Honorary Chairman of Board, Bankers Securi- ties Corp.	Jan., 1932	37,305 (e) (h)	11,685 (e)	392 (i)
BRUCE H. GREENFIELD	Executive Vice President, Bankers Securities Corp.	April, 1959	None (j)	100 (e)	1,450 (e) (k)
JOSEPH A. W. IGLEHART	Partner, W. E. Hutton & Co.—Investment Bankers	May, 1951	100	None	None
CHARLES H. JAGELS	Vice President, Company— President, Lansburgh Division (b)	July, 1960	None	None	None
WILLIAM F. KELLY	President, The First Penn- sylvania Banking & Trust Co. — Banking	May, 1957	None	None	None
BERNARD LITVAK	Vice President, Company— President, Lit Brothers Division	April, 1960	None	None	None
ISIDORE NEWMAN, II*	Senior Vice President, Company — President, Maison Blanche Division	May, 1950	519	None	1,092 (e)
THOMAS C. PILLION	President, Albert M. Green- field & Co. — real estate and insurance (b) . . .	April, 1961	500 (l)	None	200 (l)
MAX ROBB*	President of Company . .	May, 1948	910 (e)	200 (e)	1,395 (e)
SERGE SEMENENKO	Vice Chairman, The First National Bank of Boston — Banking	May, 1952	100	None	None

* Member of Executive Committee of Company.

(a) The term of office of each director expires at the next annual meeting of stockholders or when his respective successor is duly elected and qualified.

(b) Mr. Ralph L. Goldsmith retired as Vice President of the Company and President of the Lansburgh Division in July 1960. Mr. Charles H. Jagels, who was President of the Davison-Paxon Company, a division of R. H. Macy & Co., Inc. from 1941 to 1958 and Chairman of Davison-Paxon Company from 1958 to 1960, joined the Company as a Vice President and President of the Lansburgh Division in July 1960 following Mr. Goldsmith's retirement. Mr. Pillion has been President of Albert M. Greenfield & Co. since 1956.

- (c) None of the directors of the Company beneficially owned, directly or indirectly, any equity securities of Company's subsidiaries, nor did any director and his associates (other than the Company) own any of said securities.
- (d) Bankers Securities Corporation, which owns beneficially 2,033,711 shares of Company's Common Stock.
- (e) Including, or consisting wholly of, shares owned by a corporation or corporations in which the director owns all or a substantial stock interest. This, however, is not to be construed as an admission that the director is the beneficial owner, directly or indirectly, of any such equity securities.
- (f) In addition associated persons owned 2,101,259 shares of Common Stock of Company, including those owned by Bankers Securities Corporation (see above), constituting more than 10% of said stock thus owned by Mr. Amsterdam and his associates.
- (g) Mr. Amsterdam, as Voting Trustee, owned of record 35,863 shares or 59.8% of the Common Stock of the parent. Of the shares so held of record, a corporation in which Mr. Amsterdam owns all the stock, beneficially owned 5,360 shares of the Common Stock (represented by voting trust certificates) of the parent.
- Mr. Amsterdam and his associated persons (including the Voting Trust of which he is sole Trustee) beneficially owned 37,166 shares (23.2%) of the Preferred and 36,668 shares (61.1%) of the Common Stock of the parent. Of such holdings, Mr. Amsterdam, as stated above, held of record 35,863 shares (59.8%) of said Common Stock as Voting Trustee, City Stores Foundation, Inc. beneficially owned 12,008 shares (7.5%) of said Preferred Stock and The Albert M. Greenfield Foundation beneficially owned 11,850 shares (19.8%) of said Common Stock of the parent.
- (h) In addition, associated persons owned 2,065,823 shares of Common Stock of Company, including those owned by Bankers Securities Corporation (see above), constituting more than 10% of said stock thus owned by Mr. Greenfield and his associates.
- (i) Mr. Albert M. Greenfield and his associated persons beneficially owned 3,801 shares (2.4%) of the Preferred Stock and 12,689 shares (21.1%) of the Common Stock of the parent, including 11,850 shares (represented by voting trust certificates) beneficially owned by The Albert M. Greenfield Foundation.
- (j) Associated persons owned 2,061,312 shares of Common Stock of Company, including those owned by Bankers Securities Corporation (see above), constituting more than 10% of said stock thus owned by Mr. Bruce Greenfield and his associates.
- (k) Mr. Bruce Greenfield and his associated persons beneficially owned 22,568 shares (14.1%) of the Preferred Stock and 15,465 shares (25.8%) of the Common Stock of the parent, including 11,850 shares, represented by voting trust certificates, beneficially owned by The Albert M. Greenfield Foundation.
- (l) Owned directly by Albert M. Greenfield & Co., which also owns 4,900 shares of Common Stock of Bankers Securities Corporation, represented by voting trust certificates.

REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration paid by the Company and its subsidiaries during the fiscal year ended January 28, 1961 to (a) each director and each of the three highest paid officers of the Company whose direct aggregate remuneration exceeded \$30,000, and (b) all directors and officers of the Company as a group, is set forth below:

(a)	<i>Name of Individual</i>	<i>Capacities in Which Remuneration Was Received</i>	<i>Aggregate Remuneration</i>	<i>Estimated Annual Pension at Retirement On or After Age 65 (D)</i>
	FRANKLIN F. BRUDER *	Executive Vice President and Treasurer and Director of Company and of City Specialty Stores, Inc.	\$ 75,480	—
	CHARLES H. JAGELS	Vice President and Director of Company and President of Lansburgh Division of Company	40,883 (A)	—
	BERNARD LITVAK	Vice President and Director of Company and President of Lit Brothers Division of Company	65,200 (B)	\$13,090
	ISIDORE NEWMAN, II *	Senior Vice President and Director of Company and President of Maison Blanche Division of Company	115,100 (B)	24,780
	MAX ROBB *	President and Director of Company and of City Specialty Stores, Inc.	100,480 (B)	25,000

* These were the three highest paid officers of the Company during the past fiscal year.

(A) Covers the period from July 1, 1960 to end of fiscal year. The Company has an agreement with Mr. Jagels providing for his employment for a period of 37 months ending July 31, 1963, subject to renewal, under which he is to receive, in addition to a base annual salary, incentive compensation computed on a sliding scale share of the net earnings of the Lansburgh Division in excess of the average capital employed, but not in excess of \$75,000 in any employment year. The first such year covers the period August 1, 1960 to July 29, 1961 and hence no determination of such compensation payable to Mr. Jagels can be made at this time. The Agreement also provides for the payment to him or his survivors of deferred compensation upon his death or other termination of employment for a period of 10 years in an amount equal to the product of \$2,083.33 multiplied by the number of months from the date of commencement of his employment to the date of expiration or sooner termination thereof.

(B) The Company has separate agreements with Messrs. Litvak, Newman and Robb providing for their employment on a yearly basis unless sooner terminated, under the terms of which said officers are to receive base annual salaries, and providing also for deferred compensation payments to them or their survivors upon their deaths or other terminations of employment, for a period of 10 years, subject to fulfillment of the terms of said agreements. Pursuant thereto, the Company has accrued during the past fiscal year as such deferred compensation \$15,000 for Mr. Litvak, \$30,000 for Mr. Newman and \$15,000 for Mr. Robb. Total amounts accrued by the Company in respect to prior years on account of said deferred compensation total \$30,000 for Mr. Newman. These officers and Mr. Jagels are the only officers who are directors to whom deferred compensation may be paid under Company arrangements. Said deferred compensation is included in the foregoing table under "Aggregate Remuneration".

(C) The Pension Plan of the Company is not a funded plan and hence, no amounts of pension benefits have been accrued with respect to the foregoing individuals. The amounts indicated set forth the estimated benefits payable to the respective individuals, based on their respective recent five-year average or current rate of annual compensation, assuming retirement at age 65 or over. It is estimated that present directors and officers of the Company, as a group, who are eligible under the Plan, will receive annual pensions at retirement totaling \$87,501, based on their respective recent five-year average or current rate of annual compensation, assuming they retire at age 65 or over. Mr. Ralph L. Goldsmith retired July 1, 1960 and is receiving an annual pension of \$20,280.

(b) All officers and directors of the Company, as a group, were paid \$473,978 by the Company and its subsidiaries during the past fiscal year.

STOCK OPTIONS

The Stock Option Plan of the Company was adopted by the stockholders at the last annual meeting held May 18, 1960 and provides, among other things, for a maximum of 125,000 shares of Common Stock, \$5.00 par value, of the Company, for which options may be granted to salaried key executive and managerial employees, including officers who may be directors. In this connection, the Board of Directors, on July 5, 1960, granted options totaling 49,250 shares of the Company's Common Stock to 32 such employees, of whom 9 are officers of the Company and of the latter, 5 are also directors named above. One of the foregoing options for 2,500 shares has been terminated. On April 4, 1961, the Board of Directors granted options for an additional 12,750 shares of Common Stock to 19 additional key executive and managerial employees of several divisions of the Company, one of whom is an officer of the Company. The option price of the 49,250 shares so granted was \$14.13125, being 95% of the official closing price ($14\frac{7}{8}$) of the Company's Common Stock on the New York Stock Exchange on July 5, 1960, as provided in said Plan. The option price of the 12,750 shares granted April 4, 1961 was \$13.41875, being 95% of the official closing price ($14\frac{1}{8}$) of the Company's Common Stock on said Exchange on said date.

The aforesaid options granted under the Plan may be exercised in installments over a ten year period, beginning 18 months after date of grant as follows: 10% after 18 months but prior to two years after date of grant and, thereafter, an additional 10% during each year for the next following seven years, and the final 20% during the tenth year after the date of grant; provided, however, that the Stock Option Committee may permit an optionee to exercise options for the balance of his shares, commencing with and after the fifth year after date of grant. The right to purchase the shares comprising each installment shall be cumulative, each optionee being entitled to purchase at any time prior to the expiration date of the option all shares as to which his option shall have then matured. Each option shall terminate 10 years after date of grant and will also terminate within three months after termination of the optionee's employment with the Company or any subsidiary, or one year after the optionee's death.

Since no option is to be exercised until 18 months from date of grant, none has been exercised as of this date. Total options to purchase the Company's Common Stock at the price of \$14.13125 per share, expiring July 5, 1970, were granted to the following officers who are also directors: Franklin F. Bruder, 4,000 shares; Charles H. Jagels, 3,500 shares; Bernard Litvak, 3,500 shares; Isidore Newman, II, 5,000 shares and Max Robb, 5,000 shares.

Directors and officers of the Company, as a group, were granted options totaling 26,750 shares of Common Stock.

AMENDMENT TO CERTIFICATE OF INCORPORATION

On April 4, 1961, the Board of Directors of the Company authorized the adoption, subject to approval of stockholders, of an Amendment to the Certificate of Incorporation providing for the increase in the authorized Common Stock, \$5.00 par value, from 3,000,000 shares to 6,000,000 shares of said stock. A majority vote of the holders of Common Stock is required to approve said amendment.

The provisions of the Certificate of Incorporation of the Company presently in effect with respect to the authorized capital stock of the Company are as follows:

"FOURTH: (1) The total number of shares which the Corporation shall be authorized to issue is 3,029,036. Of such shares, 29,036 shall be Preferred Stock and 3,000,000 shall be Common Stock.

(2) The 29,036 shares of Preferred Stock will have a par value of \$100.00 per share and shall have such voting powers and shall be issued in such series and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issuance of such stock adopted by the Board of Directors pursuant to the authority expressly vested in it by this provision.

(3) The 3,000,000 shares of Common Stock shall have a par value of \$5.00 per share, shall be entitled to one vote for each share, and shall be subject to the preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions of the Preferred Stock as shall be stated and expressed by the resolution or resolutions providing for the issuance of such Preferred Stock, as may be adopted by the Board of Directors in accordance with subparagraph 2 hereof."

The Company has no present plans with respect to the issuance of the Preferred Stock of the Company and no action is to be taken at the Annual Meeting of Shareholders with respect to said stock.

There are presently issued and outstanding 2,767,072 shares of Common Stock of the Company, not including 12,423 shares in treasury and shares reserved for exchange of the stock of the former Diversified Stores Corporation and City Specialty Stores, Inc. (recently merged into the Company) not yet deposited with the Transfer Agent. In addition, 125,000 shares of Common Stock have been reserved for issuance under the Stock Option Plan of the Company, as above indicated, and the Board of Directors of the Company has declared an optional stock dividend payable May 15, 1961, which will result in the issuance of additional Common Stock. Because the amount of unissued stock is so small in number, your Directors deem it advisable to increase the authorized Common Stock of the Company to provide the Company with additional authorized shares of Common Stock so as to be able to meet and take advantage of proposals involving the issuance of such stock which may prove of benefit to the Company. However, at this time, there are no plans or programs of any kind, involving the issuance of such additional stock, nor are any being considered, but such shares may be issued in the future for proper Company needs and purposes as and when, in the judgment of the Board of Directors, such are deemed advisable and necessary, subject to the approval of the Board of Directors as to fairness and other factors relevant to the purpose of the issuance. Stockholders are not to be entitled to preemptive rights with respect to such issuance, as provided by the Certificate of Incorporation.

Your management recommends to you that you vote "FOR" the proposed Amendment to the Certificate of Incorporation as provided in your attached form of proxy. **Proxies will be voted as marked; if you do not mark your proxy "FOR" or "AGAINST" the proposed Amendment to the Certificate of Incorporation, it will be voted "FOR" the said Amendment.**

OTHER MATTERS

No financial statements are furnished as part of this proxy statement since they are not deemed material to the exercise of prudent judgment in considering and acting upon the matters to be presented at the meeting. Audited financial statements are included in the Annual Report of the Company enclosed herewith.

The management does not know of any matters to be presented at the meeting for action by the stockholders other than the proposals already referred to herein and in the notice of annual meeting. If any other matters properly come before the meeting, your proxy will be voted in accordance with the best judgment of the persons named as proxies therein.

April 25, 1961

MILTON A. KAMSLER,
Secretary.

The present is the first of the series of reports on the progress of the work of the Commission since its establishment in 1947.

The Commission has been very busy since its establishment in 1947. It has held many meetings and has done a great deal of work.

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Statement of Income

	YEAR (52 WEEKS) ENDED	
	January 28, 1961	January 30, 1960
Sales (including leased departments)	\$262,503,570	\$274,632,594
Deduct:		
Cost of goods sold and operating expenses less carrying charges	256,222,602	263,394,998
Depreciation and amortization	3,729,889	3,641,417
Interest and debt expense	2,623,987	2,623,488
	<u>262,576,478</u>	<u>269,659,903</u>
	72,908	4,972,691
Net income of unconsolidated subsidiaries (depreciation of \$429,257 and \$399,418, respectively, deducted) — Note A	222,244	145,439
Miscellaneous other income (last year includes \$271,455 prior years' interest on refund of federal income taxes)	168,313	527,371
Minority share of net loss of subsidiary	31,655	8,114
Income before federal income taxes	349,304	5,653,615
Federal income taxes:		
Tax credit — reduction in deferred federal income taxes (net) — Note E	1,520,000	
Provision		2,900,000
Net income	<u>\$ 1,869,304</u>	<u>\$ 2,753,615</u>

Italics denote red figures.

See notes to financial statements, pages 13 through 15.

Statement of

ASSETS

January 28, 1961

January 30, 1960

CURRENT ASSETS

Cash	\$ 15,115,302	\$ 10,806,522
Marketable securities — at cost (approximate market)	267,725	272,675
Accounts receivable — Note B	41,347,823	51,004,990
Merchandise inventories — Note C.	26,609,559	30,235,231
Supplies and prepaid expenses	2,557,533	2,398,706
TOTAL CURRENT ASSETS.	<u>85,897,942</u>	<u>94,718,124</u>

INVESTMENTS AND OTHER ASSETS

Investments in and net receivables from unconsolidated subsidiaries — Note A and see page 12	4,390,255	3,489,282
U. S. Government securities deposited as security under leases.	264,644	275,693
Mortgages receivable, sundry investments and other items	1,378,898	1,366,988
Refundable prior years' federal income taxes	129,442	127,177
	<u>6,163,239</u>	<u>5,259,140</u>

PROPERTY AND EQUIPMENT — Note D

Land, buildings, leaseholds, fixtures and equipment — at cost.	66,572,755	64,849,638
Less accumulated depreciation and amortization	28,117,038	25,897,064
	<u>38,455,717</u>	<u>38,952,574</u>

UNAMORTIZED DEBT EXPENSE	156,456	176,897
	<u>\$130,673,354</u>	<u>\$139,106,735</u>

Financial Condition

LIABILITIES

CURRENT LIABILITIES

	January 28, 1961	January 30, 1960
Accounts payable, accrued and sundry liabilities	\$ 18,105,398	\$ 19,606,647
Federal income taxes — Note E	5,327,858	8,459,976
Notes payable to bank	—	3,500,000
Current portion of long term debt and mortgages not assumed — Note D	3,185,041	2,752,957
TOTAL CURRENT LIABILITIES	26,618,297	34,319,580

LONG TERM DEBT (other than mortgages not assumed)

— Note F	27,443,000	29,128,000
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RESERVES — Note G	1,178,315	1,370,249
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DEFERRED FEDERAL INCOME TAXES, applicable to accelerated depreciation — Note E	1,880,300	1,827,600
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MORTGAGES NOT ASSUMED — Note D	9,334,698	9,892,517
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DEFERRED CREDIT — Note H	1,050,524	—
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MINORITY INTEREST — Note I	—	274,845
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OWNERSHIP — Note I

Common stock — \$5 par value — authorized 3,000,000 shares; outstanding 2,767,012 shares (after deducting 12,423 shares in treasury)	13,835,062	13,363,832
Other capital	18,807,230	17,849,216
Income reinvested in business — Note F	30,525,928	31,080,896
	63,168,220	62,293,944
	\$130,673,354	\$139,106,735

Statement of Income Reinvested in Business

	YEAR (52 WEEKS) ENDED	
	January 28, 1961	January 30, 1960
Balance at beginning of year	\$31,080,896	\$30,619,736
Net income	1,869,304	2,753,615
	<u>32,950,200</u>	<u>33,373,351</u>
Net addition resulting principally from merger with Diversified Stores Corporation	—	232,096
	<u>32,950,200</u>	<u>33,605,447</u>
Dividends — Note I:		
Cash	1,058,314	2,524,551
Stock	1,365,958	—
	<u>2,424,272</u>	<u>2,524,551</u>
Balance at end of year — Note F	<u>\$30,525,928</u>	<u>\$31,080,896</u>

See notes to financial statements, pages 13 through 15.

Unconsolidated Real Estate Subsidiaries — Combined
Summary of Net Assets* — Note A

	January 28, 1961	January 30, 1960
Land, buildings, leaseholds and equipment, less depreciation (includes unoccupied premises of closed stores)	\$12,649,652	\$13,113,493
Mortgages and loan payable — current portions \$882,734 (this year) and \$407,718 (last year)	8,701,536	10,318,873
	<u>3,948,116</u>	<u>2,794,620</u>
Other assets, including cash of \$61,300 (this year) and \$217,570 (last year)	788,496	1,138,687
	<u>4,736,612</u>	<u>3,933,307</u>
Accounts payable and federal income taxes	346,357	444,025
Net assets	<u>\$ 4,390,255</u>	<u>\$ 3,489,282</u>
Consisting of:		
Intercompany accounts with parent companies — net . . .	\$ 3,255,230	\$ 2,575,767
Capital stocks and surplus	1,135,025	913,515
	<u>\$ 4,390,255</u>	<u>\$ 3,489,282</u>

* Three liquidated subsidiaries remain liable on mortgages commented on in Note D, which mortgages are not included herein.

Leases:

The minimum annual rentals upon real property leased to unconsolidated subsidiaries under leases expiring more than 3 years from January 28, 1961, amounted to approximately \$400,000, of which approximately \$250,000 pertains to properties leased to City Stores Company and Consolidated Subsidiaries. Certain of the leases with an aggregate minimum annual rental of approximately \$200,000 have been guaranteed by City Stores Company or a consolidated subsidiary. Certain of the leases provide for payment of additional rental based on a percentage of sales (related to premises occupied by parent or consolidated subsidiaries) over a fixed amount, and for taxes, insurance or other charges.

Notes to Financial Statements

The financial statements for the preceding year are included for comparison purposes only. Reference should be made to the previously issued Annual Report for the Accountants' Report and notes relating to those financial statements.

A — PRINCIPLES OF CONSOLIDATION

The accounts of all subsidiaries are included in the accompanying consolidated financial statements, except those of certain real estate subsidiaries, the investments in which are included in the accompanying statement of financial condition at amounts equal to the net assets of such subsidiaries. A summary of such net assets is set forth on page 12.

B — ACCOUNTS RECEIVABLE

The Company has agreements with various banks which provide, in effect, for a form of revolving credit under which specific accounts receivable are assigned to the banks, and the banks remit amounts equal to 90% of the accounts assigned, withholding 10% of the uncollected balances representing the Company's equity. Under the agreements, the Company accepts reassignment of any accounts in default (as defined) as long as it continues to assign accounts.

The accounts receivable are summarized as follows:

	This Year	Last Year
Accounts receivable customers and others — after deducting this year \$6,818,814 received on account of the sale of a portion of installment receivables	\$58,292,419	\$66,562,862
Less:		
Accounts receivable assigned net of equity of \$1,648,548 and \$1,430,114 respectively	14,836,931	12,871,034
Allowances for doubtful accounts	2,107,665	2,686,838
	<u>16,944,596</u>	<u>15,557,872</u>
	<u>\$41,347,823</u>	<u>\$51,004,990</u>

C — MERCHANDISE INVENTORIES — Determined under Retail Method

Merchandise inventories, as summarized below, are priced principally at LIFO cost and partly at the lower of cost or market. The inventories priced at LIFO cost would be approximately \$4,998,000 more for this year and \$4,852,000 more for last year if they had been priced at the lower of cost or market.

	This Year	Last Year
At LIFO cost	\$22,281,566	\$23,728,577
Less allowance for discounts	490,185	482,887
	<u>21,791,381</u>	<u>23,245,690</u>
At lower of cost or market.	4,818,178	6,989,541
	<u>\$26,609,559</u>	<u>\$30,235,231</u>

D — REAL ESTATE

The accounts include real estate in the net amount of \$9,303,744, principally store properties, subject to mortgages which at January 28, 1961 amounted to \$9,908,739. The Company is not liable on the mortgage notes; however, it has guaranteed to January 9, 1962 the payments of the mortgage principal installments aggregating \$509,996 (included in current liabilities) and interest.

E — FEDERAL INCOME TAXES

The Company records income from installment sales for financial accounting purposes at the time sales are made and for tax purposes generally on the basis of cash collections. The deferred federal income taxes on installment sales are included in the current liability for federal income taxes.

The reduction of \$1,520,000 in deferred federal income taxes (net) resulted from the offset of a prior year net operating loss carryover and other available deductions against taxable income which includes income arising from the sales of a portion of installment receivables and of rights to receive future rents.

The accompanying financial statements are subject to final determination of federal, state and local taxes.

Notes to Financial Statements (Continued)

F — LONG TERM DEBT (other than mortgages not assumed)

	This Year	Last Year
Long term debt is summarized as follows:		
Notes payable	\$24,767,000	\$26,000,000
4% sinking fund debentures (subordinated) — payable		
\$300,000 annually	2,676,000	3,000,000
Mortgages payable (other than mortgages not assumed)	—	128,000
	<u>\$27,443,000</u>	<u>\$29,128,000</u>

Maturities of notes payable under loan agreements with The Prudential Insurance Company of America and The First National Bank of Boston aggregate \$1,983,000 annually from 1961 to 1970, \$5,583,000 in 1971, and approximately \$83,000 annually from 1972 to 1975. In addition a term loan of \$1,500,000 from The First National Bank of Boston is payable in quarterly installments of \$250,000 commencing November, 1961. The loan agreements provide, among other things, for (1) the maintenance of minimum consolidated working capital of \$50,000,000, (2) restrictions on the purchase, redemption or other acquisition of the Company's stock, and (3) restrictions on the payment of cash dividends on the Company's common stock. Notwithstanding the restriction on cash dividends computed under a formula in the agreements as it pertains to (3) above, the holders of the notes have agreed that the Company be permitted to pay cash dividends in an amount not in excess of \$.15 per share on each of four quarterly dividend payment dates during the year ending March 1, 1962, provided that in connection with the declaration of each such dividend, each holder of common stock shall be given the option to receive, in lieu of cash, shares of common stock of the Company in a number not less than 1% of the outstanding common stock owned by such holder. The amount of any cash dividends paid during the years 1959, 1960 and 1961 is to be included in any subsequent computation under the formula in the agreements pertaining to such restriction.

G — RESERVES

	This Year	Last Year
The reserves are provided for the following:		
Restoration of leased properties	\$ 441,899	\$ 441,899
Termination of store operations	89,298	232,785
Excess rentals	647,118	695,565
	<u>\$ 1,178,315</u>	<u>\$ 1,370,249</u>

H — DEFERRED CREDIT

This amount arose in connection with sales during the current year of rights to receive rents from certain tenants within the two years ending February 2, 1963.

I — OWNERSHIP

On January 28, 1961, City Specialty Stores, Inc., a consolidated subsidiary with minority stockholders, was merged into City Stores Company in connection with which 5,395 shares of common stock were issued to the minority stockholders. The issuance of such stock resulted in an increase in common stock of \$26,975 and in other capital of \$53,950.

Common stock outstanding includes 21,336 shares subsequently issued with respect to the optional cash or stock dividend declared January 10, 1961, paid on February 15, 1961.

On April 4, 1961, the Board of Directors authorized an increase in the authorized common stock from 3,000,000 shares to 6,000,000 shares, subject to stockholder approval.

The Company's restricted Stock Option Plan makes available for granting, to selected key executives and managerial employees, stock options to purchase 125,000 shares of the Company's common stock at not less than 95% of the market price on the date of grant. Options granted are exercisable in nine annual installments on a cumulative basis commencing 18 months from grant dates. As at January 28, 1961, options were outstanding for 46,750 shares, granted during the year at \$14.13 per share. On April 4, 1961, options for 12,750 shares were granted at \$13.49.

The increase of \$958,014 in other capital consists of (1) the \$53,950 increase set forth above in connection with the acquisition of the minority interest in City Specialty Stores, Inc., (2) \$921,703 representing the excess of the approximate market value over par value of 88,851 shares issued in connection with optional cash or stock dividends and (3) miscellaneous net debits of \$17,639.

J — CONTINGENCIES AND OTHER COMMENTS

The minimum annual rentals upon real property leased to the Company and its consolidated subsidiaries under leases expiring more than three years from January 28, 1961, amount to approximately \$1,400,000 under leases with

the unconsolidated real estate subsidiaries and \$4,700,000 under leases with others. Certain of the leases provide for payment of additional rental based on a percentage of sales over a fixed amount, and for taxes, insurance or other charges. Reference is made to summary of net assets of the unconsolidated real estate subsidiaries for minimum rentals payable by such subsidiaries.

Certain leases provide for the restoration of the related properties to their original condition, in connection with which, upon vacating such properties, there may be incurred costs in an amount presently indeterminable. Accordingly, no provision has been made in the accounts for such costs, except as to \$441,899 (included in the tabulation of reserves in Note G) recorded on the acquisition of a subsidiary in a prior year.

Commitments for acquisition of non-current assets, including property and equipment, aggregate approximately \$4,000,000.

The Company's non-contributory pension plan (as amended) covers, generally, employees with 20 years of service who are not participants in any other plan to which the Company contributes. The plan provides for retirement at age 65 with no vesting of rights. Although the Company does not presently contemplate funding this plan, it may do so in the future. The Company may amend, modify or terminate the plan in whole or in part at any time. The benefits paid under this plan, which are charged to operations as paid, amounted to \$19,900 in 1960 and will increase to an annual rate of approximately \$435,000 in 1969. Payments under informal arrangements to presently retired employees (approximately \$396,000 this year) will gradually decline, based on mortality factors. The amount which would have been necessary to fund this plan, as at January 28, 1961, with respect to past services as related to employees 55 years of age and over and retired employees has been estimated by the Company's actuary at approximately \$5,400,000. The past service cost for other eligible employees has not been computed.

S. D. LEIDESDORF & CO.

CERTIFIED PUBLIC ACCOUNTANTS
NEW YORK, N. Y.

ACCOUNTANTS' REPORT

To the Board of Directors
City Stores Company
New York, N. Y.

We have examined the consolidated statement of financial condition of City Stores Company and consolidated subsidiaries as at January 28, 1961, and the related consolidated statements of income and income reinvested in business for the year (52 weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated statement of financial condition and consolidated statements of income and income reinvested in business, together with the notes to financial statements, present fairly the consolidated financial position of City Stores Company and consolidated subsidiaries at January 28, 1961, and the consolidated results of their operations for the year (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

S. D. LEIDESDORF & CO.

New York, N. Y.
April 14, 1961

Historical Comparison

	January 28, 1961	January 30, 1960	January 31, 1959	February 1, 1958	February 2, 1957	January 28, 1956
OPERATIONS*						
Sales	\$262,504,000	\$274,633,000	\$268,964,000	\$263,747,000	\$272,119,000	\$251,882,000
Index of sales	104%	109%	107%	105%	108%	100%
Income before federal income taxes	349,000	5,654,000	5,058,000	6,540,000	5,834,000	11,877,000
Federal income taxes .	1,520,000	2,900,000	2,750,000	3,200,000	2,313,000	5,973,000
Net income	1,869,000	2,754,000	2,308,000	3,340,000	3,521,000	5,904,000
Income applicable to common stock	1,869,000	2,754,000	2,272,000	3,298,000	3,471,000	5,662,000
Income per average common share	0.69	1.09	0.90	1.31	1.38	2.49
DIVIDENDS						
Preferred stock	—	—	36,000	42,000	50,000	242,000
Common stock	2,424,000	2,525,000	3,282,000	3,534,000	3,534,000	3,241,000
Per share						
Preferred stock	—	—	4.25	4.25	4.25	4.25
Common stock	0.90	1.00	1.30	1.40	1.40	1.40
FINANCIAL						
Current assets	85,898,000	94,718,000	99,943,000	96,495,000	106,098,000	110,177,000
Current liabilities . . .	26,618,000	34,320,000	34,263,000	30,285,000	32,574,000	31,772,000
Working capital	59,280,000	60,398,000	65,680,000	66,210,000	73,524,000	78,405,000
Current ratio	3.2	2.8	2.9	3.2	3.3	3.5
Accounts receivable . .	56,185,000	63,876,000	62,299,000	60,922,000	67,292,000	66,259,000
Bank remittances on portion of receivables	14,837,000	12,871,000	12,283,000	12,871,000	10,999,000	—
Inventories	26,610,000	30,235,000	27,892,000	31,996,000	34,904,000	31,417,000
Property and equipment — net	38,456,000	38,953,000	39,505,000	28,117,000	26,755,000	23,161,000
Long term debt	27,443,000	29,128,000	32,336,000	32,371,000	34,610,000	36,560,000
Ownership	63,168,000	62,294,000	61,755,000	63,983,000	67,489,000	65,458,000
Preferred stock	—	—	—	882,000	1,068,000	2,402,000
Common stock equity	63,168,000	62,294,000	61,755,000	63,101,000	66,421,000	63,056,000
Common stock equity per share . . .	22.83	23.31	24.46	24.99	26.31	25.51
Number of common shares outstanding						
Average during year	2,694,000	2,525,000	2,525,000	2,524,000	2,524,000	2,271,000
At end of year	2,767,012	2,672,766	2,524,553	2,524,567	2,524,374	2,471,918

* Exclusive of extraordinary items which did not result from the usual or typical business operations and have been credited or charged to income reinvested in business or to reserves.

Italics denote red figures.



*Richards new Cutler Ridge Store —
opened October 1960
— showing ribbon cutting ceremonies,
opening day crowds and
busy parking area.*

